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STATE PASS USTR FOR WILLIAM JACKSON

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SUBJECT: SAG, BUSINESS AND LABOR ADOPT FRAMEWORK DOCUMENT
FOR RESPONDING TO THE INTERNATIONAL ECONOMIC CRISIS

Classified By: Deputy Economic Counselor Bruce Neuling, reasons 1.4 (b)
and (d)

¶1. (C) Comment: A working group comprised of government, business and labor representatives has agreed on a strategy to guide South Africa's response to the global economic crisis. Key components of the plan include infrastructure spending, jobs programs, interventions to minimize job losses, and short-term loans to distressed companies in key sectors. To a large extent, the strategy only repackages and pulls together existing or already-planned programs. However, the decision to maintain spending levels in the face of revenue shortfalls was controversial within the SAG. End Summary.

South Africa Agrees on a Plan

¶2. (SBU) A Presidential Economic Joint Working Group (Group) has agreed on a framework to guide South Africa's response to the global economic crisis. Comprised of government, business, labor, and civil society representatives, the Group has been drafting the framework since December 2008 under the aegis of the National Economic Development and Labour Council (NEDLAC). (NEDLAC is a forum where government, business, labor and civil society discuss social and economic policy.) The text, entitled "Framework for South Africa's Response to the International Economic Crisis," was presented to President Motlanthe on February 19 and can be found at www.gcis.gov.za.

¶3. (SBU) The framework document calls the global crisis "the deepest and most serious economic crisis in at least the last 80 years." It warns South Africans that growth forecasts must be "sharply revised" as domestic GDP growth "is likely to be lower than previously expected at least in 2009 and 2010." The Group was heartened, however, by the fact that South Africa has many "positives" to fall back on in fashioning a response to the crisis, such as well-regulated financial markets and fiscal space for counter-cyclical policies. Regarding the latter, the Group endorsed the "need for a bold intervention in the form of a broad stimulus package."

Getting Down to Details

¶4. (SBU) According to the Group, South Africa's response to the crisis will be guided by two basic principles. First, the poor and vulnerable will be shielded from the worst effects of the slowdown. Second, the long-term capacity of the economy to grow and create jobs must be enhanced; in particular, planned high levels of investment in infrastructure must be maintained.

¶5. (SBU) The framework document commits the "social partners" (government, business, labor, and civil society) to respond to the crisis on a broad front and to preserve jobs whenever possible. Specific commitments and measures include

-- The government will maintain plans to spend 787 billion

rand (about \$78 billion) on infrastructure over the next three years.

-- The social partners will frame plans to support "vulnerable sectors" including clothing, textiles and footwear, mining, autos, and capital equipment. ("Vulnerable sectors" are defined as "sectors with significant employment and labour intensity...where they are currently large planned or actual job losses and company closures as a result of the crisis.")

-- A special National Jobs Initiative will bring together existing and new programs to underwrite "special employment measures" as well as social measures to avoid job losses. Qmeasures" as well as social measures to avoid job losses. The Initiative is estimated to cost 10 billion rand (about \$1 billion) over the next three years. (Note: Press reports indicate that the Initiative mostly consolidates existing or already-planned jobs programs. End Note.)

-- The state-owned Industrial Development Corporation (IDC) will make increased working capital available to firms in large, labor-intensive sectors. In particular, the IDC and other development finance institutions will "provide preferential funding to firms under distress to offset short-term funding pressures that are the result of the global economic context."

-- The social partners, including parastatal corporations, "will encourage local procurement of supplies, services and other requirements wherever possible in order to main and increase local output and employment levels." Promoting domestic content will be especially important in the context of the public infrastructure program.

-- "Trade measures will be used to address import surges, dumping and to address the short-term crisis of vulnerable sectors. These will include fast-tracking of investigations..." The International Trade Administration Commission (which investigates trade cases) will initiate more investigations.

-- Business and labor will explore all possible alternatives to mass layoffs, utilizing as necessary the good offices of the Commission on Conciliation, Mediation and Arbitration (CCMA). Organized business will encourage "CEOs of companies to do everything in their power to avoid retrenchments (layoffs) as a result of the global economic crisis..."

-- The government's Expanded Public Works Program (EPWP) (a job creation scheme for unskilled and semi-skilled workers) will be scaled up to generate two million one-year full-time job equivalents over the period 2009-2014. Some 4.5 million workers will participate in the program. (Note: Post assumes that the cost of the scaled up EPWP is included in the 10 billion rand National Jobs Initiative. End Note.)

-- Various measures will be taken to enhance food security and protect unemployment insurance schemes.

Less Than Meets the Eye -- and More

16. (C) In meetings with Deputy Economic Counselor prior to and after the release of the document, an economic advisor to the Presidency acknowledged that the strategy mainly repackages existing and already-planned programs. She did not regard this as insignificant, however, since National Treasury had pushed to cut spending in order to contain the size of the budget deficit (projected to grow to almost 4 percent of GDP in FY 2010). She contrasted the decision to maintain infrastructure spending in the face of revenue shortfalls with the situation in the 1990s, when Treasury had "slashed public investment" in order to control the size of the deficit.

17. (C) The advisor highlighted two items as genuinely new

and important. First, she believed that bringing together business and labor in the CCMA to discuss alternatives to mass layoffs could have a meaningful impact on employment, if the parties bargain in the right spirit. Similarly, she thought that IDC bridge loans to distressed firms could play a big role in limiting job losses. She stressed that IDC would not "bail out" firms. Assistance would only be extended to solvent companies facing short-term pressures because of the downturn. She admitted that much work remained to be done on identifying companies eligible for IDC assistance.

Comment

18. (SBU) The details of the global crisis strategy may be less important than the fact that South Africa's government, business community, and labor unions have agreed on a response that combines fiscal stimulus with specific interventions to limit job losses. The timing could not have been better, as GDP figures due to be released this week are likely to show that the South African economy contracted in the fourth quarter of 2008. Most analysts still expect that fiscal stimulus combined with lower interest rates and a weak rand will keep the economy growing, however sluggishly, over the course of 2009. However, most admit that their forecasts are shakier than unusual. Fortunately, South Africa now has a plan endorsed by all key stakeholders. As Business Day (the country's leading business newspaper) noted in a recent editorial: "Social dialogue is valuable in and of itself and the very fact that SA's social partners are working together to try to tackle the fallout from the global crisis should at least help SA to weather the storm without social conflict."

LA LIME